

EX PARTE OR LATE FILED

No. of Copies rec'd
List ABCDE



Brian W. Masterson
Government Affairs Director

Suite 1000
1120 20th. St. NW
Washington, DC 20036
202 457-3803
FAX 202 457-2545
EMAIL bmasters@lgamgw.attmail.com

March 12, 1998

RECEIVED

MAR 12 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Re: EX PARTE - (CC Docket No. 96-45) - Federal-State Joint Board
On Universal Service

Dear Ms. Salas:

On March 11, 1998, Mark Lemler and I, of AT&T, met with C. Leanza, L. Wright and B. Wimmer of the Universal Service Branch and J. Lande of the Industry Analysis Branch of the Common Carrier Bureau. AT&T discussed its attached filing regarding second quarter 1998 Universal Service contribution factors.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

Brian W. Masterson

RECEIVED

MAR 12 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Attachment:

cc: C. Leanza
B. Wimmer
L. Wright
J. Lande

No. of Copies rec'd
List ABCDE

012

STAMP &
RETURN

RECEIVED

MAR 10 1998



Rick D. Bailey
Vice President - Federal Government Affairs

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Suite 1000
1120 20th St. NW
Washington, DC 20036
202 457-2131
FAX 202 457-3205

March 10, 1998

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, NW, Room 200
Washington, DC 20554

Re: Proposed Second Quarter Universal Service
Contribution Factors, CC Docket No. 96-45

Dear Ms. Salas:

AT&T Corp. ("AT&T") submits the following comments on the Commission's Public Notice, DA 98-413, released February 27, 1998, and the recent Universal Service Administrative Company ("USAC") report on which it is based, along with a request for specific Commission action. In its submission, USAC projects the second quarter 1998 funding requirements for the programs supported by the new Universal Service Fund ("USF") and proposes the contribution factors based on the revenue amounts reported on the USF Worksheets (FCC Form 457) required to be filed by all interstate telecommunications service providers.

According to the Public Notice, USAC's proposed contribution factors for the second quarter of 1998 differ from those on which the first quarter contributions were based. Specifically, the contribution base (interstate, international and intrastate) for the schools, libraries and rural health care programs was increased to \$92.1856 billion from the \$89.827 billion originally used to develop first quarter contribution factors. Similarly, the contribution base (interstate and international) for the high cost and low-income programs was increased to \$35.3033 billion from the \$35.001 billion used for the first quarter. The Public Notice referred to the fact that there were newly-filed Forms 457, as explained in USAC's January 30 and February 24, 1998 letters to the Commission, which account for this variance.



Recycled Paper



Rick D. Bailey
Vice President - Federal Government Affairs

Suite 1000
1120 20th St. NW
Washington, DC 20036
202 457-2131
FAX 202 457-3205

March 10, 1998

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, NW, Room 200
Washington, DC 20554

Re: Proposed Second Quarter Universal Service
Contribution Factors, CC Docket No. 96-45

Dear Ms. Salas:

AT&T Corp. ("AT&T") submits the following comments on the Commission's Public Notice, DA 98-413, released February 27, 1998, and the recent Universal Service Administrative Company ("USAC") report on which it is based, along with a request for specific Commission action. In its submission, USAC projects the second quarter 1998 funding requirements for the programs supported by the new Universal Service Fund ("USF") and proposes the contribution factors based on the revenue amounts reported on the USF Worksheets (FCC Form 457) required to be filed by all interstate telecommunications service providers.

According to the Public Notice, USAC's proposed contribution factors for the second quarter of 1998 differ from those on which the first quarter contributions were based. Specifically, the contribution base (interstate, international and intrastate) for the schools, libraries and rural health care programs was increased to \$92.1856 billion from the \$89.827 billion originally used to develop first quarter contribution factors. Similarly, the contribution base (interstate and international) for the high cost and low-income programs was increased to \$35.3033 billion from the \$35.001 billion used for the first quarter. The Public Notice referred to the fact that there were *newly-filed Forms 457*, as explained in USAC's January 30 and February 24, 1998 letters to the Commission, which account for this variance.



If these newly-filed Forms 457 are appropriately included in the development of the second quarter contribution factors, they should have been assessed for the first quarter's universal service contributions. Indeed, to the extent they were not included, those carriers that did contribute in the first quarter overpaid and should either be refunded the amount of their overpayment, or have their second quarter assessments discounted by the amount of the first quarter overpayment. AT&T estimates these overpayments are as follows:

- 1) Overpayment of schools, libraries and rural health care support:

First Quarter Program Costs / Appropriate
Contribution Base = \$325 million / (\$92,1856
million / 2) = .0071

Appropriate Factor - Original Factor =
Correction .0071 - .0072 = - .0001

Correction * Original Contribution Base =
- .0001 * (\$89,827 million / 2) =
(\$4.5 million)

- 2) Overpayment of high cost and low-income support:

First Quarter Program Costs / Appropriate
Contribution Base = \$559 million / (\$35,3033
million / 2) = .0317

Appropriate Factor - Original Factor =
Correction .0317 - .0319 = - .0002

Correction * Original Contribution Base =
- .0002 * (\$35,001 million / 2) =
(\$3.5 million)

The carriers whose Form 457 submissions formed the basis for the original first quarter contribution factors should have their proportionate share of these corrections offset against their second quarter assessments. And carriers that filed new Forms 457 should be assessed an additional \$4.5 million in combined revenues, and \$3.5 million in interstate and international revenues to make-up for their past underpayments.

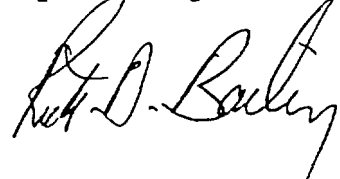
In addition, to the extent that any of these newly-filed Forms 457 were actually assessed universal service obligations by USAC during the first quarter, it would appear that the various components of the universal

service programs collected more than their actual first quarter funding requirements. That over-recovery should have been held in an interest bearing account and the accumulated interest should be applied as an offset to the second quarter funding requirements of the respective programs, if it has not already been so applied.

Finally, any downward change in incumbent local exchange carriers' universal service funding obligations as a result of the above must be reflected in their interstate access tariffs scheduled to take effect on July 1, 1998, to the extent that incumbent local exchange carriers are allowed to flowthrough universal service fund assessments through access charges.

These requested changes are a direct outgrowth of the compliance plan that AT&T had suggested the Commission to undertake in its November 19, 1997 letter comments on USAC's original proposed first quarter 1998 contribution factors. In those comments, AT&T noted the critical need for a clearcut compliance plan to ensure that entities that were required to file USF Worksheets have done so or have not under-reported their retail telecommunications revenues, with the result that the contribution amounts for entities that duly reported their revenues are higher than they should be. Given the magnitude of the dollars involved in the universal service program and its impact on consumers, it is imperative that the Commission ensure full compliance. In particular, AT&T urged the Commission to take steps to ensure that parties who did file correct Form 457 Worksheets will receive appropriate credits toward future USF contribution obligations and that those entities which were required to file, but disregarded their filing duty or understated their retail revenues, will be mandated to contribute at appropriate levels. This is the Commission's opportunity to go forward with the corrections that equity and competitive neutrality demand.

Respectfully submitted,



cc: Cheryl Leanza
Timothy Peterson
Peyton Wynns